



Wisconsin Department of Transportation

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Scott McCallum
Governor

Thomas E. Carlsen, P.E.
Secretary

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December 20, 2002

George Lightbourn, Secretary
Department of Administration
101 East Wilson Street
P.O. Box 7864
Madison, WI 53703-7864

Dear Secretary Lightbourn:

On November 18, 2002, you directed those agencies that submitted budget requests including fee increases to submit a revised plan for consideration. In response to that request, the department has developed the proposal that is outlined in this document and the attachments. Over the last eight months, the department evaluated transportation needs for Wisconsin and investigated every possible option to meet those needs within the current revenue stream. That analysis convinced us it is not possible to maintain a quality, multi-modal transportation infrastructure in Wisconsin without additional revenue. To comply with your directive, we prepared a budget plan within our current financial resources. We believe the plan presented here does not meet the state's significant and growing transportation needs.

In developing the original budget request, the department talked with stakeholders, administration officials and legislators about needs and funding. Legislators to a person agreed that the Marquette Interchange is a very high priority, but they did not want it to be funded through borrowing or by reallocating funds from other projects, modes, or aid programs. Stakeholder groups agreed. The mandate was clear; using bonding to solve short-term funding issues while creating huge revenue shortfalls in the future was not acceptable. The department's 2003-05 request was intended to preserve and grow existing programs and complete the Marquette Interchange project with a reasonable mix of cash and bonding on the four-year schedule.

In developing the revised request, the department set aside most of the goals that the original budget was based on. We will not be able to address the state's diverse transportation needs, preserve the existing infrastructure or ensure that the agency provides the quality service that our citizens deserve. With the funds available only from natural revenue growth, the department has approximately \$30 million available for new initiatives and inflation adjustments to the major programs, like the General Transportation Aids and Highway Improvement programs. This represents only a fraction of the funding needed for the Marquette Interchange alone. The goals that now guide the development of the revised proposal include:

- Proceed with the Marquette Interchange on a five-year schedule, which extends the project and pushes funding needs into the 2005-07 biennium.
- Fund the Inspection Maintenance program and avoid the need to charge a fee for the program in FY 05 when federal funding for the program ends.
- Preserve federal funding.

With those goals in mind, the department prepared the attached financial summary and one-page descriptions of the concerns the agency has with this proposal. In general terms, the request includes the following above base-level adjustments:

- Bond for 55% of the Marquette Interchange project and reallocate a total of \$135 million (state and federal funds for the biennium) from the highway improvement program, General Transportation Aids (GTA), Local Road Improvement Program (LRIP) and Transit Aids to fund the remainder of the project.
- Provide \$6,321,700 SEG in FY 05 to fund the inspection maintenance program (DIN 5509).
- Provide \$201,200 SEG in FY 05 to fund the changes necessary to implement the federal Motor Carrier Safety Improvement Act of 1999 (DIN 5503).
- Pursue the necessary statutory language for the Oversize/Overweight Vehicle Permitting System, first and second offense .08 prohibited alcohol concentration law and standard enforcement of the current safety belt law, appropriation changes for highway operations and maintenance and the motorcycle program, federal indirect, Freight Rail Infrastructure Improvement Program, the Harbor Assistance Program, expansion of the pledged revenue coverage to other fees and the elimination of the Office of the Commissioner of Railroads.
- Finally, our proposal includes DIN 5408 on information technology services, since it is a good change in business practices.

Under the financial constraints the administration mandated, funding must be reduced for the following:

- Base level funding will be cut from highway improvement, GTA, LRIP and transit. The net effect of the transfer of funds and no inflation for the programs is a reduction in the overall highway improvement program and less state aid for local highway and transit programs.
- Inflation is not provided for the elderly and disabled transportation program and highway operations and maintenance. This will result in a decrease in the services these programs can provide.

- Consolidation of light vehicles into the automobile registration category cannot be done because of the negative revenue impacts. This will perpetuate an unenforceable law and customer confusion.
- Amtrak service will be reduced or eliminated in southeast Wisconsin because of a lack of funding for the existing and new service.
- Long range planning and research will be severely curtailed.
- Services provided by the Divisions of Motor Vehicles and State Patrol will be reduced to stay within existing budgets. This will impact not only highway safety but also the services customers receive in the motor vehicle customer service centers.

Although this plan is fundable within current revenue, the department believes that it does not provide the level of service or the quality programs we have been providing. Beginning the budget debate with no options for a revenue increase will pit the stakeholders against each other in a debate on unmet needs. Uncertainty about the level of federal funding available for highway programs just exacerbates the situation. There needs to be a debate considering transportation revenues and what they should be expected to pay for. The mobility of our citizens, transportation safety, security and the economic well being of our state are in jeopardy.

If you have questions on the proposal, please contact Alice Morehouse, at 267-9618.

Sincerely,

Thomas E. Carlsen, P.E.
Secretary

Attachments

**Department of Transportation
Alternative 2003-05 Biennial Budget Proposal**

	<u>FY 04</u>	<u>FY 05</u>	<u>FY 06</u>	
Transportation Revenues	\$1,330,754,500	\$1,361,215,800	\$1,361,215,800	*
<u>Needs:</u>				
1) SEG Base and Reserves	1,321,780,500	1,340,174,200	1,340,174,200	*
2) Southeast Freeway (Marquette)	\$262,000,000	\$262,000,000	\$260,000,000	
55% Bonding Level	(144,100,000)	(144,100,000)	(143,000,000)	
Base Funding	(45,925,700)	(45,925,700)	(45,925,700)	
Earmarks for Marquette	(8,000,000)	(8,000,000)	(8,000,000)	
Unfunded Portion of Marquette	63,974,300	63,974,300	63,074,300	
3) Debt Service for Marquette	8,646,000	21,562,000	34,410,800	
4) Inspection/Maintenance	0	6,321,700	6,321,700	
5) MCSIA Matching Funds	0	201,200	0	
Total:	\$1,394,400,800	\$1,432,233,400	\$1,443,981,000	
Needs in Excess of Balance	(\$63,646,300)	(\$71,017,600)	(\$82,765,200)	
<u>Possible Reallocation:</u>				
1) Fed funds from SHR	19,283,800	21,517,200	25,076,600	
2) Reallocate Transit Funds	5,660,100	6,315,700	7,360,500	
3) State funds from SHR, GTA and LRIP	38,702,200	43,184,600	50,328,200	
Total:	\$63,646,100	\$71,017,500	82,765,300	

* Natural growth in revenues (difference between revenues and base budget plus reserves) for FY 2006 represents FY 2005 estimate

Federal Funds Outlook 2003-2005

Current estimates for non-defense federal funding over the next few years indicate funding will be tightly constrained and at lower levels than in previous years:

- Budget constraint is a primary goal of the administration and Congressional leaders;
- House majority leaders have stated their support of the President's goals of budgetary constraint and have advised appropriations committee and sub-committee chairs that spending and Congressional earmarking will be constrained; and
- Newly established Republican control of the Senate would indicate they would also support constraints in spending.

Federal highway funding in particular is estimated to be lower than in previous years for several reasons:

- The US Treasury has been overly optimistic in its estimates of federal highway revenues over the past few years, resulting in a negative adjustment in federal highway formula funding in 2003;
- The delay in the 2003 transportation appropriations bill until after the election, in combination with the political factors listed above, means that it is likely that 2003 transportation spending will be set at the compromise level of \$27.7 billion or \$4.1 billion below 2002 levels¹;
- Since 2003 is the last year of the current six-year transportation authorization, the \$27.7 billion level is likely to be the base for the next multi-year transportation authorization;
- The statement by House majority leadership that appropriations earmarks will be constrained means it is likely that additional funding for specific projects, i.e. the Marquette Interchange, will be sharply decreased over previous years; and
- Increased use of alternative fuels, new vehicle technologies, and ethanol fuel in particular, both in Wisconsin and the country as a whole, will continue to erode federal transportation revenues under the current federal fuel tax structure.

Current department estimates of federal formula funding for the state indicate significant decreases from the \$548.5 million received in 2002, a level which was already below the \$567 million level set by the State Legislature for 2002 and 2003 in the 2001-03 Biennial Budget. In comparison, estimates of federal formula funding levels in the department's 2001-03 Biennial

¹ Congress failed to pass 11 of 13 annual appropriations bills before the end of the 107th Congress. The administration, through the Office of Management and Budget (OMB) continues to advocate a 2003 spending level for highways of \$27.7 billion. This was also the level specified by the House prior to the election, while the Senate's pre-election level was at \$31.8 billion, which equaled the 2002 level.

Budget request were \$545.5 million in 2002 and \$560.7 million in 2003. Current department estimates of federal formula funding for 2003-2005 are:

- \$479.5 million in 2003;
- \$501.8 million in 2004; and
- \$527.1 million in 2005.

BONDS

If current revenues cannot provide all of the funding needed for the Marquette Interchange work, bonds may be considered for the “gap” between current revenues and project costs. Wisconsin already issues revenue bonds for major highway projects.

- **Revenue Bonds.** Revenue bonds have been used as a funding source for the highway program since the early 1980s. Currently, revenue bond proceeds are used to fund approximately 54% of the cost of the major highway program. In the 2001-03 biennium, the budget established \$257.2 million in costs of the major program to be financed by bonds.
- **General Obligation Bonds.** Wisconsin could also consider issuing General Obligation (GO) bonds for the Marquette Interchange. GO Bonds are backed by the “full faith and credit” of the state for repayment. Because of the repayment pledge contained within Wisconsin’s constitution, GO bonds are perceived to be less risky relative to transportation revenue bonds. Revenue bonds do not carry the full faith and credit of the state; Wisconsin has simply pledged to the bondholders that motor vehicle registration revenue will be set aside to repay the bondholders.
- **Grant Anticipation Revenue Vehicle (GARVEE) Bonds.** A Grant Anticipation Revenue Vehicle or GARVEE is a debt-financing instrument authorized to receive federal reimbursement of debt service and related financing costs under Section 122 of Title 23, United States Code. States can receive Federal-aid reimbursements for a wide array of debt-related costs including principal and interest payments.

Wisconsin has not seriously considered GARVEE bonds since future federal funds are the source of repayment for GARVEE related debt. If GARVEE bonds were used, the state could be jeopardizing future highway work since the state would have committed future federal aid to repay the debt.

Potential advantages to bonding:

- Reduces need for significant revenue increases to manage cost “spikes.”
- Defers need to increase revenues to repay debt to future years.
- Allocates the cost of the facility over more of its expected useful life.

Potential disadvantages to bonding:

- Potential resistance from policy makers to issuing additional debt.
- As additional debt is issued, more of the “natural growth” in revenues will be consumed by debt service payments, limiting funds available for other priorities.
- Interest expense adds to total project costs.

MARQUETTE INTERCHANGE

Problems with the Marquette

- ***Physical deterioration.*** After over 30 years of use, the structures that make up the multi-level facility are literally falling apart. Fifty-six of 152 bridges are rated "intolerable" or "minimally tolerable" under FHWA guidelines.
- ***Obsolete Design.*** The facility was originally designed for a substantially smaller amount of traffic and was constructed based on now outdated engineering standards.
- ***Traffic Congestion.*** The phenomenal growth in traffic on the facility that has occurred since its opening in 1968 has resulted in severe traffic flow problems today. Currently, the volume of traffic using the interchange is double its design capacity. Almost 300,000 cars and trucks use the interchange daily.
- ***Safety Problems.*** The combination of an outdated design and high traffic volumes has resulted in a crash rate that is significantly higher than the statewide average for urban freeways.

Potential Advantages to Delaying the Project

- The need for significant increases in either fees or taxes to address transportation needs is postponed.
- Projects in other parts of the state will not be delayed because substantial financial resources have been dedicated to the Marquette Interchange project.

Potential Disadvantages to Delaying the Project

- Without significant improvement to the interchange, the department may need at some point, to limit the amount of weight carried over the system.
- If necessary, such an action would result in an increase in traffic on other roadways including the local street system, which would result in an increase in congestion as well as increase in maintenance costs.
- The cost of the project would be expected to increase because of inflationary increases in the cost of labor and materials.
- The Governor and the Legislature may consider the reallocation of resources to pay for all or a portion of the Marquette Interchange costs. Funding reallocated from other programs such as GTA, SHR, or major highway projects would delay projects within those programs.

- The Marquette Interchange has been identified as the department's top priority. Delaying its reconstruction only increases its ultimate cost and assures additional interim patching will be necessary to maintain traffic flow.

Potential Advantages to Reallocating Resources

- The department has reallocated resources in the past. For example, the completion of Highway 29 from Green Bay to the Wausau Bypass, which cost \$450 million, was completed in part with reallocated base funds from other transportation districts as well as with a team of staff from various transportation districts.
- The Legislature, in the early 90s, provided additional funding to expedite the completion of Highway 29 while not providing inflationary increases for other state highway programs, which led to delays in the completion of other projects.
- The need to increase fees or taxes would be deferred until the future if a significant level of existing resources were provided for the Marquette project.

Potential Disadvantages to Reallocating Existing Resources

- The Legislature has been consistent in its opposition to the department reallocating resources from existing programs to pay for the Marquette Interchange. The Legislature may decide to delay the project rather than reallocate funds, which adversely affect their projects.
- The Marquette Interchange is the first of a series of reconstruction projects on the southeast Wisconsin freeway system. Depending on how much funding was diverted from the State Highway Improvement Program to pay for the Marquette, projects scheduled in the 2002-07 State Highway Improvement Plan could be delayed for years.

Delaying projects would result in increased project costs. The department's practice, when it becomes necessary to delay projects, has been to delay scheduled projects in the out years and complete those projects currently underway. The magnitude of the cost increase is not known.